

**REPORT OF THE AUDIT OF THE  
FLEMING COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FLEMING COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**

The Auditor of Public Accounts has completed the Fleming County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

#### **Financial Condition:**

Cash balances decreased by \$496,025 from the beginning of the year, resulting in a cash surplus of \$1,508,407 as of June 30, 2003.

#### **Debt Obligations:**

Capital lease principal agreements totaled \$714,226 as of June 30, 2003. Future principal and interest payments of \$765,705 are needed to meet these obligations.

#### **Report Comments:**

- Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Improve Purchasing System
- The County Should Post All Receipts And Disbursements

#### **Deposits:**

The fiscal court's deposits were not fully insured and collateralized by bank securities or bonds.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Larry Foxworthy, Fleming County Judge/Executive

Members of the Fleming County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Fleming County, Kentucky, as of June 30, 2003, and the statement of cash receipts, cash disbursements, and changes in cash balances- governmental fund type for the year then ended. These financial statements are the responsibility of the Fleming County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Fleming County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Fleming County, Kentucky, as of June 30, 2003, and its receipts and disbursements for the year then ended in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 4, 2004, on our consideration of Fleming County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Larry Foxworthy, Fleming County Judge/Executive

Members of the Fleming County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Fleming County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Improve Purchasing System
- The County Should Post All Receipts And Disbursements

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

Audit fieldwork completed -  
May 4, 2004



FLEMING COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

**Fiscal Court Members:**

Larry Foxworthy	County Judge/Executive
Ray Money	Magistrate
Kenny Souder	Magistrate
Roger Jolley	Magistrate
Larry Dearing	Magistrate
Steve Call	Magistrate
Tim Gulley	Magistrate

**Other Elected Officials:**

John Price	County Attorney
Gary Conley	Jailer
Marilyn Spencer	County Clerk
Pam Lowe	Circuit Court Clerk
Jerry Wagner	Sheriff
Connie Crain	Property Valuation Administrator
Joe Denton	Coroner

**Appointed Personnel:**

Kathryn Dryden	County Treasurer
Angie Stephens	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

FLEMING COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type		Totals (Memorandum Only)
	General	Special Revenue	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash	\$ 51,566	\$ 36,765	\$ 88,331
Investments	1,052,000	445,000	1,497,000
Note Receivables (Note 4)		115,603	115,603
Total Assets	<u>\$ 1,103,566</u>	<u>\$ 597,368</u>	<u>\$ 1,700,934</u>
<u>Other Resources</u>			
Amounts to be Provided in Future Years for:			
Capital Leases (Note 5)	<u>\$ 431,846</u>	<u>\$ 282,380</u>	<u>\$ 714,226</u>
Total Other Resources	<u>\$ 431,846</u>	<u>\$ 282,380</u>	<u>\$ 714,226</u>
Total Assets and Other Resources	<u><u>\$ 1,535,412</u></u>	<u><u>\$ 879,748</u></u>	<u><u>\$ 2,415,160</u></u>

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND EQUITY ARISING FROM CASH TRANSACTIONS  
June 30, 2003  
(Continued)

	Governmental Fund Type		Totals (Memorandum Only)
	General	Special Revenue	
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Leases-			
Road Equipment/Sheriff's Vehicle (Note 5A)	\$ 1,868	\$	\$ 1,868
Chip & Seal Road Project (Note 5B)	315,000		315,000
Courthouse Renovation (Note 5C)	50,000		50,000
Ambulance Jaws of Life (Note 5D)	17,386		17,386
911 Equipment (Note 5E)		282,380	282,380
Dump Truck (Note 5F)	47,592		47,592
Total Liabilities	\$ 431,846	\$ 282,380	\$ 714,226
<u>Equity</u>			
Fund Balances:			
Unreserved	\$ 1,103,566	\$ 597,368	\$ 1,700,934
Total Equity	\$ 1,103,566	\$ 597,368	\$ 1,700,934
Total Liabilities and Equity	\$ 1,535,412	\$ 879,748	\$ 2,415,160

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

FLEMING COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,302,224	\$ 1,083,513	\$ 84,157	\$ 86,349
Other Financing Sources:				
Transfers In			145,500	
Kentucky Advance Revenue Program	5,639,400			
Total Cash Receipts	<u>\$ 6,941,624</u>	<u>\$ 1,083,513</u>	<u>\$ 229,657</u>	<u>\$ 86,349</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,204,859	\$ 1,138,027	\$ 228,341	\$ 22,261
Other Financing Uses:				
Transfers Out	145,500			
Capital Leases-Principal Paid	25,261	95,000		26,483
Kentucky Advance Revenue Program Repaid	5,639,400			
Total Cash Disbursements	<u>\$ 7,015,020</u>	<u>\$ 1,233,027</u>	<u>\$ 228,341</u>	<u>\$ 48,744</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (73,396)	\$ (149,514)	\$ 1,316	\$ 37,605
Cash Balance - July 1, 2002	<u>728,145</u>	<u>358,767</u>	<u>512</u>	<u>195,207</u>
Cash Balance - June 30, 2003	<u><u>\$ 654,749</u></u>	<u><u>\$ 209,253</u></u>	<u><u>\$ 1,828</u></u>	<u><u>\$ 232,812</u></u>

The accompanying notes are an integral part of the financial statements.



FLEMING COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
 AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

Special Fund Type				
Forest Fire Fund	Revolving Loan Fund	Dispatch Fund	Totals (Memorandum Only)	
\$ 1,658	\$ 46,847	\$ 208,523	\$ 2,813,271	
			145,500	
			5,639,400	
\$ 1,658	\$ 46,847	\$ 208,523	\$ 8,598,171	
\$ 1,640	\$ 11,020	\$ 513,140	\$ 3,119,288	
			145,500	
		43,264	190,008	
			5,639,400	
\$ 1,640	\$ 11,020	\$ 556,404	\$ 9,094,196	
\$ 18	\$ 35,827	\$ (347,881)	\$ (496,025)	
124	353,574	440,103	2,076,432	
\$ 142	\$ 389,401	\$ 92,222	\$ 1,580,407	

The accompanying notes are an integral part of the financial statements.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Fleming County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation as part of the reporting entity.

Public Properties Corporation

The Public Properties Corporation is a legally separate entity established to provide long-term debt service for the fiscal court. The Public Properties Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Public Properties Corporation as a component unit and the financial information should be blended with that of the fiscal court. However, since there was no financial activity for the Public Properties Corporation, no financial statement disclosure is necessary.

Additional - Fleming County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Fleming County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fleming County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Fleming County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Fleming County Special Revenue Fund Type includes the following county funds: Forest Fire Fund, Revolving Loan Fund and Dispatch Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Fleming County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34% percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$175,000 of public funds uninsured and unsecured.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Collateralized with securities held by pledging depository institution in the county's name	600,000
Uncollateralized and uninsured	<u>175,000</u>
Total	<u>\$ 875,000</u>

Note 4. Receivables

- A. The county loaned \$225,000 to Fleming County Industries, Inc. on August 17, 1985, for the purpose of industrial development. Terms of the agreement stipulate a 20-year repayment schedule at three-percent interest. Fleming County Industries, Inc. is in substantial compliance with the terms of the agreement. As of June 30, 2003, principal balance due was \$46,861.
- B. The county loaned \$300,000 to Fleming County Industries, Inc. on August 29, 1991, for the purpose of industrial development. Terms of the agreement stipulate a 15-year repayment schedule at three-percent interest. Fleming County Industries, Inc. is in substantial compliance with the terms of the agreement. As of June 30, 2003, principal balance due was \$68,742.

Note 5. Long-Term Debt - Capital Leases

- A. On May 26, 1999, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of a vehicle for the Sheriff's office and road equipment. The agreement requires variable monthly payments for 48 months to be paid in full June 20, 2003. The principal balance of the agreement was \$1,868 as of June 30, 2003. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	<u>5</u>	<u>1,868</u>
Totals	<u>\$ 5</u>	<u>\$ 1,868</u>

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Long-Term Debt - Capital Leases (Continued)

- B. On August 20, 2000, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the paving of county roads. The agreement requires variable monthly payments for 60 months to be paid in full July 20, 2005. The principal balance of the agreement was \$315,000 as of June 30, 2003. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 10,720	\$ 100,000
2005	5,700	105,000
2006	440	110,000
Totals	<u>\$ 16,860</u>	<u>\$ 315,000</u>

- C. On August 28, 2001, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the renovation of the Courthouse. The agreement requires variable monthly payments for 60 months to be paid in full January 20, 2006. The principal balance of the agreement was \$50,000 as of June 30, 2003. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,488	\$ 15,000
2005	978	15,000
2006	397	20,000
Totals	<u>\$ 2,863</u>	<u>\$ 50,000</u>

- D. On August 28, 2001, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of an ambulance and life saving equipment. The agreement requires variable monthly payments for 60 months to be paid in full August 28, 2007. The principal balance of the agreement was \$17,386 as of June 30, 2003. Future lease principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 604	\$ 5,125
2005	395	5,334
2006	178	5,551
2007	9	1,376
Totals	<u>\$ 1,186</u>	<u>\$ 17,386</u>

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 5. Long-Term Debt - Capital Leases (Continued)

- E. On April 5, 2002, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of 911 emergency equipment. The agreement requires variable monthly payments for 84 months to be paid in full April 20, 2009. The principal balance of the agreement was \$282,380 as of June 30, 2003. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 8,516	\$ 44,691
2005	7,041	46,166
2006	5,518	47,689
2007	3,945	49,262
2008	2,320	50,887
2009	653	43,685
Totals	<u>\$ 27,993</u>	<u>\$ 282,380</u>

- F. On November 8, 2002, the Fleming County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties for the purchase of an ambulance and life saving equipment. The agreement requires variable monthly payments for 60 months to be paid in full January 20, 2007. The principal balance of the agreement was \$47,592 as of June 30, 2003. Future lease principal and interest requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	1,093	11,383
2005	798	11,719
2006	496	12,066
2007	185	12,424
Totals	<u>\$ 2,572</u>	<u>\$ 47,592</u>

Note 6. Long-Term Debt – Bonds

In March 1999, the Public Properties Corporation agreed to issue \$1,500,000 Series 1996 Lease Revenue Bonds for the second remodeling project for the Fleming County Hospital. Subsequently, the Public Properties Corporation entered into a lease agreement with Fleming County Hospital. The Fleming County Hospital bears sole financial responsibility for the payment of principal and interest on the bonds.

FLEMING COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2003  
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2003, Fleming County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.



COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



FLEMING COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 12,602,718	\$ 1,302,224	\$ (11,300,494)
Road and Bridge Fund	1,105,823	1,083,513	(22,310)
Jail Fund	221,097	84,157	(136,940)
Local Government Economic Assistance Fund	97,147	86,349	(10,798)
<u>Special Revenue Fund Type</u>			
Forest Fire Fund	1,850	1,658	(192)
Revolving Loan Fund	51,745	46,847	(4,898)
Dispatch Fund	<u>175,000</u>	<u>208,523</u>	<u>33,523</u>
Totals	<u>\$ 14,255,380</u>	<u>\$ 2,813,271</u>	<u>\$ (11,442,109)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 14,255,380
Add: Budgeted Prior Year Surplus			1,991,986
Less: Other Financing Uses			<u>(5,829,408)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 10,417,958</u>

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SCHEDULE OF OPERATING REVENUE



FLEMING COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Revenue Categories</u>	<u>Governmental Fund Type</u>		<u>Totals (Memorandum Only)</u>
	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	
Taxes	\$ 785,531	\$ 147,464	\$ 932,995
Excess Fees	88,106		88,106
Licenses and Permits	8,965		8,965
Intergovernmental Revenues	1,346,870	59,371	1,406,241
Charges for Services	31,522		31,522
Miscellaneous Revenues	193,483	41,264	234,747
Interest Earned	101,766	8,929	110,695
Total Operating Revenue	<u>\$ 2,556,243</u>	<u>\$ 257,028</u>	<u>\$ 2,813,271</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



FLEMING COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	General Fund Type		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 474,305	\$ 472,043	\$ 2,262
Protection to Persons and Property	469,342	463,470	5,872
General Health and Sanitation	76,090	44,384	31,706
Social Services	13,300	6,640	6,660
Recreation and Culture	121,392	62,913	58,479
Roads	1,145,523	957,079	188,444
Airports	2,500	2,500	
Debt Service	233,381	70,354	163,027
Administration	6,934,075	514,105	6,419,970
Total Operating Budget - General Fund Type	\$ 9,469,908	\$ 2,593,488	\$ 6,876,420
Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue Program - Principal	5,639,400	5,639,400	
Capital Leases Principal	146,744	146,744	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 15,256,052</u>	<u>\$ 8,379,632</u>	<u>\$ 6,876,420</u>

FLEMING COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2003  
 (Continued)

Expenditure Categories	Special Revenue Fund Type		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 360,745	\$ 10,000	\$ 350,745
Protection to Persons and Property	472,044	470,852	1,192
Airports	1,000	1,000	
Debt Service	12,634	12,634	
Administration	101,627	31,314	70,313
Total Operating Budget - Special Revenue Fund Type	\$ 948,050	\$ 525,800	\$ 422,250
Other Financing Uses:			
Capital Leases			
Principal	43,264	43,264	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 991,314	\$ 569,064	\$ 422,250

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Larry Foxworthy, Fleming County Judge/Executive  
Members of the Fleming County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Fleming County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated May 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fleming County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and are described in the accompanying comments and recommendations.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Improve Purchasing System
- The County Should Post All Receipts And Disbursements

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fleming County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fleming County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
May 4, 2004



## COMMENTS AND RECOMMENDATIONS



FLEMING COUNTY  
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2003

INTERNAL CONTROL

1) Lacks Adequate Segregation Of Duties

The Finance Officer is receiving claims, completing purchase orders, preparing all checks, and maintaining time records. However, she is not maintaining an appropriations ledger, nor is she responsible for the county's quarterly report. The treasurer is responsible for these duties. We recommend the Finance Officer maintain an appropriation ledger and complete his section of the quarterly report as required by the Department for Local Government.

The County has six computer terminals that are connected to a main server. From all six terminals it is possible to access the accounting system if the password is known. In addition, we determined the County Treasurer and the Finance Officer have the same password. Security levels should be established and only the County Treasurer should have access to the accounting program to post accounting transactions. We recommend computer controls be strengthened to prevent unauthorized access to the accounting system. Moreover, passwords should be changed on a regular basis and should not be shared among employees.

We recommend the following controls be implemented to improve internal control over financial reporting:

- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. This can be documented by the person initialing the envelope or bank statement.
- An independent person should complete bank reconciliations or review the treasurer's bank reconciliations for accuracy. This can be documented by the person initialing the bank reconciliation.
- An independent person should compare fiscal court order approvals to invoices and cancelled checks.

*County Judge/Executive Larry Foxworthy's Response:*

*The Judge will have a second set of ledgers to complete and review periodically.*

*County Treasurer Kathryn Dryden's Response:*

*We are hiring a new person and we will adjust our duties as needed to comply.*

FLEMING COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

COMPLIANCES

2) The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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On August 31, 2002, \$175,000 of the county's deposits of public funds in depository institutions was uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*County Judge/Executive Larry Foxworthy's Response:*

*We will talk to the banks involved and make sure these pledges are in effect at the time of deposits.*

*County Treasurer Kathryn Dryden's Response:*

*We have a collateral security agreement in place. I will check on these myself from now on.*

3) The County Should Improve Purchasing System

Purchase orders are not being completed or approved by the county Judge/Executive or his designee before a purchase is made. It should be determined if budget is available for the expenditure and then a purchase order should be prepared. Purchase orders are compiled in an encumbrance list to determine how much of the ending cash balance is reserved. The encumbrance list noted on the 4<sup>th</sup> quarterly report was correct, however since purchase orders are prepared after an invoice or bill is received, the encumbrance list has the potential for error. We recommend the county improve their purchasing system in order to properly account for encumbrances.

*County Judge/Executive Larry Foxworthy's Response:*

*These procedures will be corrected immediately.*

*County Treasurer Kathryn Dryden's Response:*

*We will change as needed.*

FLEMING COUNTY  
COMMENTS AND RECOMMENDATIONS  
For The Fiscal Year Ended June 30, 2003  
(Continued)

NONCOMPLIANCES (Continued)

4) The County Should Post All Receipts And Disbursements

The County allows other agencies to be involved in the county's health insurance plan. The agencies reimburse the county in full for the policies that cover their employees. The county pays the health insurance premiums out of the payroll account. The reimbursements are not posted on the receipts ledger and the disbursements are not posted to the appropriations ledger. We have adjusted the financial statements to include the \$51,336 for health insurance reimbursements and \$51,336 for the expenditure of the health insurance premiums paid for the other agencies for fiscal year ended June 30, 2003. We recommend that these health insurance premium reimbursements be accounted for in the same manner as any other receipts or disbursements. They should be budgeted, posted to ledgers, and accounted for properly.

*County Judge/Executive Larry Foxworthy's Response:*

*We will institute immediately a receipts ledger and disbursement ledger to account for this revenue and amend the budget accordingly.*

*County Treasurer Kathryn Dryden's Response:*

*We will change this immediately.*

PRIOR YEAR FINDINGS

Lacks Adequate Segregation Of Duties

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CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

FLEMING COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2003

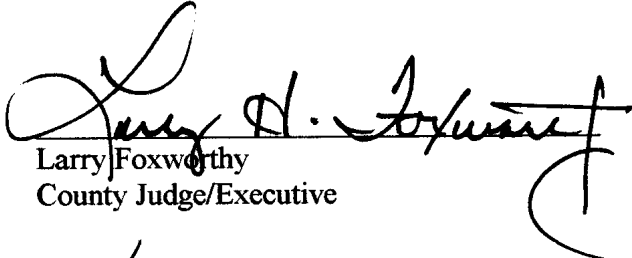


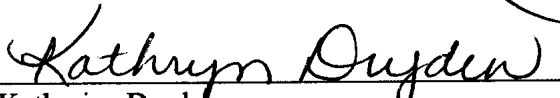


CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
FLEMING COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Fleming County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Larry Foxworthy  
County Judge/Executive

  
Katherine Dryden  
County Treasurer



